

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SIMPSON COUNTY)
WATER DISTRICT, SIMPSON COUNTY,)
KENTUCKY, (1) FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
AUTHORIZING SAID DISTRICT TO CONSTRUCT)
MAJOR IMPROVEMENTS AND EXTENSIONS TO)
ITS EXISTING MUNICIPAL WATER DISTRIBUTION)
SYSTEM PURSUANT TO THE PROVISIONS)
OF CHAPTER 74 OF THE KENTUCKY REVISED)
STATUTES; (2) SEEKING APPROVAL OF THE)
ADJUSTMENT OF WATER SERVICE RATES AND)
CHARGES; AND (3) SEEKING APPROVAL OF)
THE ISSUANCE OF CERTAIN SECURITIES)

CASE NO. 8266

O R D E R

On June 24, 1981, Simpson County Water District ("Simpson County") filed an application with this Commission, seeking a certificate of public convenience and necessity authorizing the construction of major improvements and extensions to its water distribution system; approval of the adjustment of water service rates and charges; and approval of the issuance of certain securities. An Interim Order issued on December 15, 1981, authorized the proposed construction and financing. This order addresses Simpson County's request for an increase in rates.

The construction plan submitted by Simpson County and approved by the Commission in the Interim Order was to extend service to 144 new customers at an estimated cost of \$814,600.

Bids for the construction approved in the Interim Order were taken on September 3, 1981, and the low bid on the project was substantially lower than the estimated costs. Simpson County received approval from FmHA to construct additional extensions with the additional \$424,360 in loan funds which were already committed to Simpson County. On November 4, 1981, Simpson County submitted revised construction plans designed to utilize the additional funds made available as a result of the low construction bids. The revised plans include service to 100 additional consumers.

Under the terms of the loan agreement with FmHA the loan funds for construction of the new facilities are provided on the basis of completed construction. Therefore, the Commission is of the opinion that the overall rate increase should be implemented in two phases based on the original construction plan to serve 144 customers and the revised plans to include 100 additional customers. For the purposes of this order the original construction plan will be referred to as "Phase I" and the additional construction will be referred to as "Phase II."

A hearing was held at the Commission's offices in Frankfort, Kentucky, on October 29, 1981. At the conclusion of the hearing and following responses to all requests for additional information, the matter was submitted for final determination.

COMMENTARY

Simpson County is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of Kentucky and presently serves approximately 1,380 customers in Simpson County, Kentucky.

Simpson County has an agreement with Warren Rural Electric Cooperative Corporation ("WRECC") whereby WRECC provides for the operation of Simpson County. Under this contract WRECC provides a manager and other personnel necessary to carry out the daily functions of the water district. This service is also provided to three other water districts in the vicinity of WRECC.

TEST PERIOD

The Commission has accepted the 12-month period ending March 31, 1981, for the purpose of determining the reasonableness of the rates and charges proposed herein. In utilizing the historical test period the Commission has included adjustments found to be known and measurable for rate-making purposes.

REVENUES AND EXPENSES

Simpson County proposed several adjustments to revenues and expenses as reflected in Simpson County's Request Exhibit Number One. Based on the determination herein to implement the rates in two phases, the adjustments to operating revenues and expenses have been modified, as appropriate, to include the effects of the 100 additional customers to be added in Phase II. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Operating Revenue

In determining its normalized revenue, Simpson County used an estimated average monthly water consumption of 7,000 gallons per customer for the new customers. The Commission is of the

opinion that this figure is unrealistically high and has determined Simpson County's normalization adjustment based on an average monthly water consumption of 5,338 gallons per customer. We have increased the actual test year operating revenue by \$15,814 in Phase I and \$11,364 in Phase II to reflect the additional revenue based on the number of customers added in each phase.

Interest Income

Simpson County proposed to increase its interest and dividend income on a per customer basis based on the increase in customers from the new construction project. The Commission finds no evidence to establish that a relationship exists between interest and dividend income and the number of customers on the system. Therefore, the proposed adjustment has not been allowed for rate-making purposes.

Other Interest Expenses

Simpson County proposed to increase its other interest expense on a per customer basis. Again, the Commission finds no relationship between other interest expense and the number of customers and has disallowed Simpson County's proposed adjustment.

Amortization of Extraordinary Maintenance Cost

Simpson County proposed an adjustment of \$4,800 to amortize the cost of painting a water storage tank. The Commission finds this adjustment to be proper and acceptable for rate-making purposes but has allocated the amount between Phases I and II on a per customer basis. This allocation results in an adjustment of \$2,832 to Phase I and \$1,968 to Phase II.

Maintenance Expense

Simpson County proposed an adjustment of \$474 for additional maintenance expense based on the number of miles of water mains to be added in Phase I. The Commission is of the opinion that this adjustment is appropriate and has likewise adjusted maintenance expense for Phase II based on the additional 24.81 miles of lines to be added in Phase II.

Depreciation Expense

Simpson County proposed to adjust depreciation expense by \$16,292 based on a composite depreciation rate of 2 percent of the entire \$814,600 project cost. It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The record herein reflects that the level of contributions in aid of construction at the end of the test year was \$841,613 which is approximately 39 percent of the total cost of utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the level of plant in service at the end of the test year and the depreciation rates proposed by Simpson County. After excluding depreciation associated with contributed property the resulting depreciation expense based on straight line depreciation at a 2 percent composite rate is \$26,473 for the test period, \$33,845 for Phase I, and \$42,333 for Phase II.

Interest Expense

Simpson County proposed an adjustment to interest expense of \$39,650 based on the \$793,000 loan required for the new construction. The Commission finds this adjustment to be proper and acceptable for rate-making purposes but has allocated the adjustment between Phase I and Phase II on the basis of the construction cost for each phase. This results in an adjustment of \$18,432 to Phase I and \$21,218 to Phase II.

Operation Contract Expense

Simpson County proposed an adjustment of \$9,846 for an estimated increase in the operation contract fee with WRECC. The witness for Simpson County, Mr. Joe Liles, stated that the increased cost was based on estimates of inflationary cost increases over the previous year's operation. The Commission has traditionally disallowed inflation-based adjustments as being neither known nor measurable. Because of the lack of evidence to support the \$9,846 adjustment the Commission has determined not to depart from its previous policy and has disallowed this adjustment.

The effect of the allowed adjustments on the operations of Simpson County is as follows:

	<u>P H A S E I</u>		
	<u>Actual</u> <u>Test Year</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Adjusted</u> <u>Phase I</u>
Operating Revenue	\$ 181,287	\$ 16,259	\$ 197,546
Operating Expenses	159,494	3,786	163,280
Operating Income	21,793	12,473	34,266
Interest on Long Term Debt	51,735	18,432	70,167
Interest and Other Income	20,249		20,249
Net Income	\$ <u>(9,693)</u>	\$ <u>(5,959)</u>	\$ <u>(15,652)</u>

P H A S E I I

	<u>Adjusted Phase I</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Phase II</u>
Operating Revenue	\$ 197,546	\$ 11,673	\$ 209,219
Operating Expenses	<u>163,280</u>	<u>17,712</u>	<u>180,992</u>
Operating Income	34,266	(6,039)	28,227
Interest on Long Term Debt	70,167	21,218	91,385
Interest and Other Income	<u>20,249</u>		<u>20,249</u>
Net Income	<u>\$ (15,652)</u>	<u>\$ (27,257)</u>	<u>\$ (42,909)</u>

REVENUE REQUIREMENTS

Based on the adjusted operating statement Simpson County would realize a net loss of \$15,652 for Phase I and a net loss of \$42,909 for Phase II. Simpson County's proposed rates were designed to produce revenues sufficient to cover operating expenses and provide a 1.2 debt service coverage on the current and proposed financing. The Commission finds the debt service coverage method to be a fair, just and reasonable method of determining revenue requirements for Simpson County. The Commission, therefore, finds that Simpson County's total revenue requirement for Phase I is \$271,344. In order to achieve this level of revenue, Simpson County's operating revenue from water sales should be increased by \$53,549.

The rates proposed by Simpson County will produce total revenues of \$288,480 based on the adjusted sales volumes for new customers to be added in Phases I and II. The Commission is of the opinion that this level of revenue is not unreasonable and will approve the total increase to become effective upon completion of both phases of construction.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and finds that:

(1) The rates in Appendix A will produce gross annual revenue of approximately \$271,344, and are the fair, just and reasonable rates for Simpson County for service rendered on and after the date of this order.

(2) The rates in Appendix B will produce gross annual revenue of approximately \$288,480, and are the fair, just and reasonable rates for Simpson County for service rendered upon completion of the Phase II construction.

(3) Simpson County should notify the Commission upon completion of Phase II construction of its intent to place the Phase II rates into effect, 10 days prior to the first billing. This notification should include the date of completion of construction, the dollar amount of completed construction, and the in-service date of the new facilities.

IT IS THEREFORE ORDERED that the rates in Appendix A are hereby approved for services rendered by Simpson County on and after the date of this order.

IT IS FURTHER ORDERED that the rates in Appendix B are hereby approved for services rendered by Simpson County after completion of Phase II.

IT IS FURTHER ORDERED that Simpson County shall notify the Commission upon completion of Phase II construction of its intent

to place the Phase II rates into effect, 10 days prior to the first billing. This notification shall include the date of completion of construction, the dollar amount of completed construction, and the in-service date of the new facilities.

IT IS FURTHER ORDERED that Simpson County shall file with this Commission its revised tariff sheets setting out the rates approved herein, within 30 days from the date of this order.

Done at Frankfort, Kentucky, this 17th day of March, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Catherine Randall
Vice Chairman

Jim Carver
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8266 DATED MARCH 17, 1982

The following rates and charges are prescribed for all customers served by Simpson County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

First	2,000 gallons	\$5.40 Minimum Bill
Next	2,000 gallons	1.95 per 1,000 gallons
Next	2,000 gallons	1.70 per 1,000 gallons
Next	4,000 gallons	1.30 per 1,000 gallons
Next	20,000 gallons	1.20 per 1,000 gallons
Next	50,000 gallons	1.00 per 1,000 gallons
Next	60,000 gallons	.80 per 1,000 gallons
Over	140,000 gallons	.70 per 1,000 gallons

<u>Meter Sizes</u>	<u>Gallons</u>	<u>Minimum Bill</u>
5/8"	2,000	\$ 5.40
3/4"	3,000	7.35
1"	5,000	11.00
1-1/2"	10,000	17.90
2"	16,000	25.10
3"	30,000	41.90
4"	50,000	61.90
6"	100,000	107.90
8"	160,000	153.90
10"	550,000	426.90

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8266 DATED MARCH 17, 1982

The following rates and charges are prescribed for all customers in the area served by Simpson County Water District after completion of Phase II. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

First	2,000 gallons	\$ 5.50 Minimum Bill
Next	2,000 gallons	2.00 per 1,000 gallons
Next	2,000 gallons	1.70 per 1,000 gallons
Next	4,000 gallons	1.30 per 1,000 gallons
Next	20,000 gallons	1.20 per 1,000 gallons
Next	50,000 gallons	1.00 per 1,000 gallons
Next	60,000 gallons	.80 per 1,000 gallons
Over	140,000 gallons	.90 per 1,000 gallons

Meter Sizes

Gallons

Minimum Bill

5/8"	2,000	\$ 5.50
3/4"	3,000	7.50
1"	5,000	11.20
1-1/2"	10,000	18.10
2"	16,000	25.30
3"	30,000	42.10
4"	50,000	62.10
6"	100,000	108.10
8"	160,000	154.10
10"	550,000	427.10